One of the core predictions of dynamic asset pricing theory is that expected consumption and equity returns should be correlated, yet this prediction finds little empirical support. In the first chapter of my dissertation, I show that advertising expenditures are a robust predictor for expected consumption growth in aggregate post-war US data and that, as such, also predict excess returns on equity. To motivate these findings, I build a dynamic stochastic general equilibrium model of frictions in the goods market. In the model, firms invest in advertising expenditures to attract new customers and build long-lasting customer relations, which in turn determine future expected consumption for the representative household. A preliminary calibration of the model shows that the time-to-build property of customer relations can potentially explain the predictive power of advertising expenditures on consumption and equity returns observed in the data.

In the second chapter (joint with Benjamin Tengelsen and Ariel Zetlin-Jones), we extend the Holmstrom (1982) analysis of moral hazard in teams to a repeated game in which the social planner faces limited commitment. The planner does not observe the output of individual agents, and tries to discipline their actions with the threat of implementing group punishments that break budget balance if realized total output differs from its socially-optimal level. Limited commitment, however, gives the planner ex-post incentives not to implement this punishment following a deviation. We parametrize this problem following the constrained Pareto optimal oligopolistic supergame of Abreu (1986). We show that, despite the presence of this additional friction, we can still characterize optimal carrot-and-stick punishments without group punishments. Nonetheless, the threat of these punishments is sufficient to enforce group punishments when agents deviate, thus lowering their incentives to deviate.